

UNIVERSITY OF FORT HARE
DEPARTMENT OF ECONOMICS
ALICE AND EAST LONDON CAMPUS

ECO 121/121E

JAN SUPPLEMENTARY EXAMINATION

2024

Subject: Macroeconomics 1

Marks: 100

Time: 3Hours

This paper consists of 9 pages including the cover page

Internal Examiners

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Instructions

1. Answer all questions in sections A.
2. Section A carries 40 marks with 20 questions each carrying 2 marks.
3. Answer one question in section B.
4. Section B carries 20 marks with ONE compulsory question.
5. Section C has three questions each carrying 20 marks, however, answer two questions.

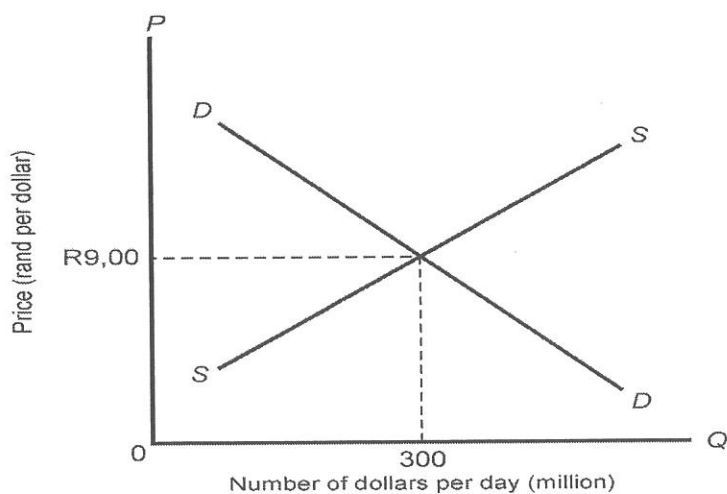
SECTION A – ANSWER ALL QUESTIONS BY SELECTING THE MOST CORRECT ANSWER.

Question 1

1. Which one of the following statements is **incorrect**?
 - A. In a barter economy there has to be a double coincidence of wants before exchange can take place.
 - B. Money is not the only possible unit of account in a monetary economy.
 - C. Money is a good store of value during periods of high inflation.
 - D. Money always serves as a medium of exchange.
 - E. Modern money is not covered by a commodity such as gold.

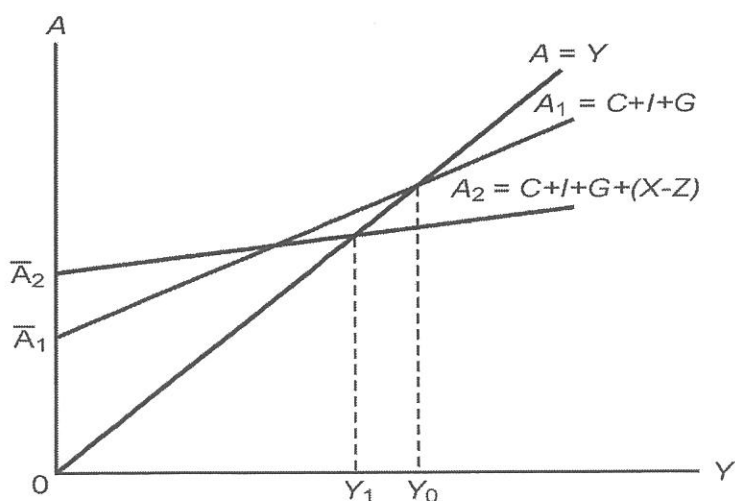
2. Which one of the following statements is **incorrect**?
 - A. Capital gains tax is a completely separate tax.
 - B. Company tax is a proportional tax.
 - C. Company tax is levied on company profits.
 - D. Value-added tax is a greater burden to poor households than to rich households.
 - E. Value-added tax is a regressive tax.

The figure below shows the demand and supply curves for dollars (in terms of the South African rand) in the foreign exchange market. Use this information to the answer the question below.



3. In this case, an increase in American tourists to South African game reserves would cause the:
- supply curve to shift to the right.
 - demand curve to shift to the left.
 - supply curve and demand curve to remain unchanged.
 - demand curve to shift to the right.
 - supply curve to shift to the left.
4. In macroeconomic theory:
- total production is always equal to total income.
 - total production is always greater than total income.
 - total production is always less than total income.
 - total production may be greater than total income.
 - total production may be less than total income.
5. Which one of the following is **not** a basic aim of macroeconomic theory?
- To describe all the detail pertaining to a specific situation in the economy.
 - To explain how the economy functions.
 - To predict what will happen if something changes.
 - To assist policymakers by analysing economic policy.

Consider the following diagram, which depicts the Keynesian model of an open economy with government, and answer Questions 6 and 7.



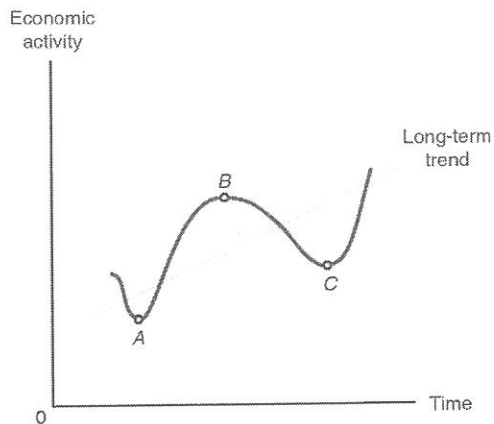
6. An increase in the marginal propensity to import will:
- A. lower the intercept of the curve labelled A_2 without changing its slope.
 - B. raise the intercept of the curve labelled A_2 without changing its slope.
 - C. make the curve labelled A_2 less steep, leaving its intercept unchanged.
 - D. make the curve labelled A_2 steeper, leaving its intercept unchanged.
 - E. change both the intercept and the slope.
7. A decrease in the tax rate will:
- A. raise the slope of curve A_2 but leave A_1 unchanged.
 - B. raise the slopes of both curves A_2 and A_1 .
 - C. raise the intercept of curve A_2 but leave A_1 unchanged.
 - D. raise the intercepts of both curves A_2 and A_1 .
 - E. have no effect on either curve.
8. Which one of the following statements is not a lag associated with monetary and fiscal policy?
- A. Recognition lag.
 - B. Macroeconomic lag.
 - C. Impact lag.
 - D. Decision lag.
 - E. Implementation lag.
9. Which one of the following statements is incorrect?
- An expansionary monetary policy:
- A. involves a decrease in interest rates.
 - B. may be illustrated by a rightward shift of the AD curve.
 - C. will always be successful in combating inflation.
 - D. tends to be less successful in stimulating the economy than an expansionary fiscal policy.
 - E. leaves the AS curve unchanged.
10. Which one of the following statements is **incorrect**?
- A. The CPI pertains to the cost of living.
 - B. The PPI pertains to the cost of production.
 - C. The CPI basket includes services.
 - D. The PPI basket includes intermediate goods.
 - E. The prices in the CPI basket exclude value-added tax.

11. Which one of the following statements is **incorrect**?
- A. The consumer price index (CPI) is simply another term for the inflation rate.
 - B. The CPI is an index that reflects the cost of a representative basket of consumer goods and services.
 - C. The inflation rate is usually expressed as an annual rate.
 - D. The inflation rate is usually obtained by comparing the CPI for a particular month with the CPI for the same month of the previous year.
 - E. The inflation rate is expressed as a percentage change (from one year to the next).
12. Which one of the following is not a recognised type or category of unemployment?
- A. Fiscal unemployment.
 - B. Frictional unemployment.
 - C. Seasonal unemployment.
 - D. Cyclical unemployment.
 - E. Structural unemployment.
13. Which one of the following statements is incorrect?
- The strict definition of unemployment:
- A. includes only persons 15 years and older.
 - B. excludes persons who are in paid employment or self-employment.
 - C. excludes people who were not available for employment or self-employment during the seven days prior to the interview.
 - D. includes persons who did not take steps during the four weeks preceding the interview to find paid employment or self-employment.
 - E. is currently the official definition of unemployment in South Africa.
14. In an industry, if wages increase more than the productivity of workers increases, we would expect
- A. an upward pressure on prices.
 - B. a decrease in unemployment.
 - C. investment in the industry to increase.
 - D. costs of production to fall.
 - E. the demand for labour to rise.
15. Use the information in the table below to answer the following question:

Employed	9 500 000
Unemployed	2 500 000
Discouraged work seekers	3 000 000
Inactive	5 000 000

Calculate the narrow unemployment rate.

- A. 20,83%
 - B. 25%
 - C. 36,67%
 - D. 60%
 - E. 75%
16. Which one of the following is NOT a reason for structural unemployment?
- A. Certain workers lack the necessary education, training or skills to obtain a job.
 - B. Workers are unable to use new technologies.
 - C. Consumer preferences change over time.
 - D. Foreign competition for specific jobs.
 - E. All of the above are reasons for structural unemployment.
17. What is the correct definition of capital widening?
- A. Capital widening occurs when capital is placed underground.
 - B. Capital widening occurs when the amount of capital per worker is increased.
 - C. Capital widening occurs when the physical size of capital is increased.
 - D. Capital widening occurs when the capital stock is increased to accommodate an increasing labour force.
 - E. Capital widening occurs when more technology is used in production.
18. From the following graph, what is the correct term for A?



- A. Long-term trend
- B. Trough
- C. Downswing
- D. Upswing
- E. Peak

19. Which one of the following economic schools of thought believes economic growth is caused by exogenous factors?

- A. Classical economists.
- B. Keynesian economists.
- C. Structuralist economists.
- D. Institutionalist economists.
- E. Monetary economists.

20. What is the correct definition of capital deepening?

- A. Capital deepening occurs when capital is placed underground.
- B. Capital deepening occurs when the amount of capital per worker is increased.
- C. Capital deepening occurs when the physical size of capital is increased.
- D. Capital deepening occurs when the capital stock is increased to accommodate an increasing labour force.
- E. Capital deepening occurs when more technology is used in production.

Total marks: 40

Section B: Compulsory question

Question 2

- 2.1. Define economic growth. **(2 marks)**
- 2.2. Explain how economic growth is measured. **(2 marks)**
- 2.3. Identify and briefly discuss demand side sources of economic growth **(6 marks)**
- 2.4. Define the unemployment rate. **(2 marks)**
- 2.5. List and briefly discuss the different types of unemployment. **(8 marks)**

Total marks: 20

Section C: ANSWER TWO QUESTIONS.

Question 3

- 3.1. Use the aggregate demand (AD) and aggregate supply (AS) model to illustrate and discuss the policy dilemma that might result in the open economy. **(20 marks)**

Total marks: 20

Question 4

- 4.1. Identify different market failures which justify government involvement in economic affairs **(5 marks)**
- 4.2. Briefly discuss how government should deal with each market failure **(5 marks)**
- 4.3. Categorise government intervention into three main functions **(6 marks)**
- 4.4. Differentiate between flypaper theory of taxation and effective incidence? **(4 marks)**

Total marks: 20

Question 5

Suppose autonomous consumption is given as R450 million and marginal propensity to consume is 70%, autonomous investment is R250 million, exports of R300 million,

imports of R350 million and a marginal propensity to import of 25%, tax rate is 28% and autonomous government spending is 460 million.

- 5.1. Calculate the multiplier. **(2 marks)**
- 5.2. Calculate the equilibrium income. **(3 marks)**
- 5.3. Calculate the consumption expenditure. **(3 marks)**
- 5.4. Suppose the South African government increases its spending from R460 million to 500 million. Express the effects of the change in government spending on autonomous spending, multiplier, total spending, and equilibrium income levels [use calculations where applicable]? **(6 marks)**
- 5.5. Use a diagram to illustrate the autonomous spending, total spending and equilibrium income before and after the change in government spending **(6 marks)**

Total marks: 20

